

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

**NAVY'S BUDGET SUBMISSION FOR NUCLEAR
REACTOR COMPONENTS AND ALTERATIONS TO
NUCLEAR POWER SYSTEMS**

Report No. 95-054

December 12, 1994

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

Department of Defense

20000302 042

DTIC QUALITY INSPECTED 3

ARI00-06-1396

Additional Copies

To obtain additional copies of this report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8937.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

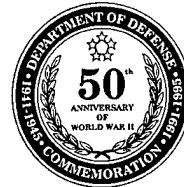
Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

DoD Hotline

To report fraud, waste, or abuse, call the DoD Hotline at (800) 424-9098 or write to the DoD Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of writers and callers is fully protected.



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884



Report No. 95-054

December 12, 1994

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)**

**SUBJECT: Navy's Budget Submission for Nuclear Reactor Components and
Alterations to Nuclear Power Systems (Project No. 4AL-5071)**

Introduction

We are providing this memorandum report for your information and use. The audit was mandated in the Conference Report to accompany the "National Defense Authorization Act for Fiscal Year 1995," House Report 103-701. This report discusses the Navy's preparation and distribution of information papers to congressional staff members showing the potential impact of proposed reductions to the Navy's reactor plant components and nuclear alterations budgets. Also, the report discusses the Navy's FY 1995 budget submission that led to the preparation of the information papers.

Audit Results

Navy officials prepared information papers for the Congress that could have been misunderstood without an accompanying explanation. The information papers were prepared to show the potential economic impact on specific geographic regions that could have resulted from the House Armed Services Committee's proposed budget reduction. The proposed budget reduction was \$14.7 million for procurement of reactor components and \$36.8 million for alterations to nuclear power systems totalling \$51.5 million from the budget submission of \$351.5 million. Although the House Armed Services Committee proposed the budget reduction without prejudice, Committee staff members were dissatisfied with the level of detail that the Navy provided in support of its budget submission for nuclear reactor components and alterations to nuclear power systems. However, the budget submission was at the same level of detail as was submitted in previous years. Those previous budget submissions had been approved, although Committee staff had informally advised the Navy that more detail was expected. Committee reports did not express any dissatisfaction with the budget submission until the FY 1995 Conference Committee report. The Authorization Conference Committee restored the \$51.5 million for a total of \$351.5 million; however, we could not determine what, if any, effect the information papers had on the restoration of the funds.

Objective

The audit objective was to evaluate the accuracy of the Navy's information papers with specific attention to the claimed economic impact of the proposed budget reduction. Specifically, the audit was to determine the validity of

economic impact statements that the Naval Reactors Office provided to congressional staff members in response to potential budget cuts. Also, the audit was to determine whether the Naval Reactors Office's budget justification related specific requirements for reactor components to specific upgrades of ships and whether proposed requirements agreed with schedules for making the alterations.

Scope and Methodology

We reviewed the information papers and associated supporting documentation as well as the supporting documentation dated from January 1994 through September 1994 for the Navy's FY 1995 reactor plant components and nuclear alterations budget submission and budget item justifications. Specifically, we reviewed the FY 1995 Reactor Component Procurement and Nuclear Alteration Plans, the Ship Availability Plan, the Ship Inactivation Schedule, and the Reactor Component Leadtime Schedule. We visited or contacted the Navy's Office of Legislative Affairs, Headquarters, Naval Sea Systems Command, and the Naval Reactors Office during the audit. We did not use computer-processed data for the audit.

This program audit was made from August 23, 1994, through October 25, 1994, in accordance with the auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD.

Internal Controls

We did not assess internal controls because the audit was limited to allegations in the Conference Report.

Prior Audits and Other Reviews

No prior audits on this matter had been made by the General Accounting Office; the Office of the Inspector General, DoD; or the Audit Agencies of the Military Departments.

Discussion

Background. Although the House Armed Services Committee proposed the budget reduction without prejudice, Committee staff members were dissatisfied with the level of detail that the Navy provided in support of its budget submission for nuclear reactor components and alterations to nuclear power systems. We determined that the Navy provided the same type of supporting documentation that it had provided in previous years. Those previous budget requests had been approved and Armed Services Committee reports did not express any dissatisfaction regarding the level of detail until the FY 1995 Conference Committee report. However, staff members from the House and Senate Armed Services Committees stated that the "generic" backup the Navy

provided had been a problem for a number of years that the staff members have not been able to get corrected. The lack of detail supporting the budget request caused the staff members to verbally request additional information from the Navy for the FY 1995 budget request. We concluded that the Navy could have provided greater detail to support its original budget submission for FY 1995. The Naval Reactors Office maintained data in a computer database that related specific component procurements to specific ship upgrades and alteration expenses to installation schedules. However, Navy officials told us that they provided the same level of detail as in previous budget submissions and were not aware that increased support was required.

The Navy appealed the proposed budget reduction, but the Navy perceived that the appeal was not having any impact on getting the budget reduction restored. As a result, the Navy prepared and made limited distribution of information papers to generate wider congressional interest in the Navy's reactor plant components and nuclear alterations budgets. The information papers are discussed later in this report.

Although the Authorization Conference Committee restored the budget line on August 12, 1994, the language in the Conference Report 103-701 to accompany the "National Defense Authorization Act for Fiscal Year 1995" clearly showed that the Committee was not satisfied with the supporting documentation that the Navy had provided. The Report stated that:

The conferees agree to provide the requested amounts. The conferees note that the budget justification materials for these two programs leave much to be desired. There is insufficient information to relate specific component procurement to specific ship upgrades. Neither can alteration expenses be related to installation schedules. The conferees find it unacceptable that the budget justification material does not provide the necessary information.

.

The conferees are also unsure about the veracity of the claims made in some of the Navy Department's information papers. Claimed economic impacts on various geographic areas greatly exceeded the total potential reductions being considered.

On September 26, 1994, the Conference Committee on the FY 1995 Defense Appropriations Bill reduced the Reactor Components program by \$14.7 million and the Nuclear Alteration program by \$10.0 million. Conference Report 103-747, "Making Appropriations for the Department of Defense for the Fiscal Year Ending September 30, 1995, and for Other Purposes," states that:

The conferees agree to provide the \$180,000,000 for the Reactor Component program. The reduction of \$14,673,000 is made without prejudice. The conferees agree to provide \$146,804,000 for the Nuclear Alterations program, a decrease of \$10,000,000 from the budget request. This adjustment is made without prejudice.

A more complete chronology of the events is in Enclosure 1.

Evaluation of Information Papers. We concluded that the information papers could be misunderstood if not accompanied by an explanation. The Navy did attach a copy of the appeal of the budget reduction to the information papers that were distributed. The Navy provided us with notes indicating that both before and when copies of the information papers were distributed to the staff member for the Senate Armed Services Committee, it was explained that the Naval Reactors Office had not determined which procurements and alterations could not be accomplished if the funds were not available and that the information papers were a complete list of all items that could be impacted. The information papers could be misunderstood to mean that the entire budget request had been eliminated. For example, one information paper stated, in part, that:

Further, restoral of this funding is key to Puget Sound Naval Shipyard accomplishment of about \$42 Million in Nuclear Alterations work in FY 95 alone and another \$15 Million in future year Nuclear Alterations work to install FY 95 procured OPN Reactor Plant Components.

If the entire budget reduction of \$36.8 million for nuclear alterations had been applied to the Puget Sound Naval Shipyard, the reduction would not have eliminated all nuclear alterations planned to be accomplished at that facility.

The Naval Reactors Office intentionally did not perform a technical review or analysis to determine the actual impact that the proposed budget reductions would have. Instead, the Naval Reactors Office presented the total amount of the budget request that was applicable to each geographic region as the potential economic impact of the proposed budget reduction. Officials of the Naval Reactors Office stated that the economic impact of the cuts would not be determined unless the proposed budget reduction actually occurred. The dollar value shown in the information papers totalled \$344 million, as shown in Enclosure 2, although the proposed reduction was only \$51.5 million of the \$351.5 million requested.

Conclusion

The House Armed Services Committee's dissatisfaction with the Navy's budget submission may have been a result of miscommunication between the Navy and congressional staff members regarding the level of detail required. Aggressive measures to defend DoD budget requests are not inappropriate; however, the Navy's information papers could have been misunderstood without an accompanying explanation.

This report makes no recommendations because the language used in the conference report clearly describes the information that the House Armed Services Committee wants in support of the budget submission. Navy officials stated that they could provide the level of detail described in the conference report:

The Naval Sea Systems Command Nuclear Power Directorate is committed to resolving the concerns stated in the Conference Report

with respect to budget justification materials and is prepared to provide Congress sufficient information to relate component procurements to ship upgrades and alteration expenses to installation schedules.

Management Comments

We provided a draft of this report to the addressee on November 4, 1994. Because we made no recommendations, no comments were required. On November 22, 1994, an official of the Office of the Navy Comptroller told us that the Navy did not plan to comment. Also, no comments on this final report are required.

We appreciate the courtesies extended to the audit staff. The audit staff members are listed inside the back cover. If you have questions on this audit, please contact Mr. William D. Van Hoose, Acting Program Director, at (703) 604-9034 (DSN 664-9034) or Mr. Robert L. Shaffer, Project Manager, at (703) 604-9043 (DSN 664-9043). Enclosure 3 lists the distribution of this report.



Robert J. Lieberman
Assistant Inspector General
for Auditing

Enclosures

Chronology of Events

February 7, 1994. The President's FY 1995 budget was submitted to Congress. The budget included the reactor plant components and nuclear alterations budget submission. The budget submission requested \$351.5 million that consisted of \$194.7 million to procure nuclear reactor components primarily for future alterations and \$156.8 million to make alterations, commencing in FY 1995, to nuclear power systems.

May 10, 1994. The House Armed Services Committee recommended reducing the budget request by a total of \$51.5 million. The Committee proposed reductions of \$14.7 million for procurement of reactor components and \$36.8 million for alterations to nuclear power systems without prejudice.

May 16, 1994. The Naval Reactors Office prepared an appeal to the proposed budget reductions. The appeal was provided to Office of the Comptroller of the Navy and became part of the official DoD appeal package, dated June 27, 1994.

June 15, 1994. The Senate Armed Services Committee supported the Naval Reactors Office's budget request as proposed.

June 27, 1994. The House Appropriations Committee supported the House Armed Services Committee's proposed reductions.

July 19, 1994. The Navy unofficially learned that its budget appeal had little impact. Officials from the Navy's Office of Legislative Affairs and the Naval Reactors Office agreed that they needed to preserve their support in the Senate Authorization Committee. On July 21, 1994, an information paper was given to a staff member of a representative to be used as a "trial balloon" to see whether the information paper might create interest in restoring the proposed budget reduction. Also, on July 21, 1994, the Naval Reactors Office prepared information papers for the congressional members who had shipyards or vendors of reactor components in their states or congressional districts. These information papers, "POTENTIAL IMPACT OF PROPOSED CUTS TO THE FY 95 OPN NUCLEAR ALTERATIONS AND REACTOR COMPONENTS BUDGETS," related the budget for reactor plant components and nuclear alterations to the applicable geographic areas.

July 22, 1994. The Navy delivered packages of the member-specific information papers to the professional staff members of the House Armed Services Committee and the Senate Armed Services Committee. In addition, information papers were distributed to the individual staff members for four senators. In total, the Navy delivered either complete packages containing all information papers or individual information papers to seven staff members. The Navy provided us with notes indicating that both before and when copies of the information papers were distributed to the staff member for the Senate Armed Services Committee, it was explained that the Naval Reactors Office had not determined which procurements and alterations could not be accomplished if the funds were not available and that the information papers were a complete list of all items that could be impacted.

Chronology of Events

July 23, 1994. The staff members of the House Armed Services Committee and the Senate Armed Services Committee objected to the information papers as being potentially misleading. The staff members made no further distribution of these information papers.

July 25, 1994. At the request of members of the congressional staff, officials from the Naval Reactors Office briefed the staff of the Senate Armed Services Committee. The House Armed Services Committee staff declined the briefing, but requested a hard copy of the briefing materials. The briefing materials contained a summary of the FY 1995 Reactor Plant Component Procurement and Nuclear Alterations. The summary of the component procurement was broken down by major category of component equipment and listed the individual equipment that comprised the category, along with the ship designated to receive the equipment and year of planned installation. The summary of the FY 1995 alterations was broken down by ship categories and listed the types of ship alterations planned for accomplishment during FY 1995 availabilities.

August 12, 1994. The Authorization Conference Committee restored the budget line.

September 26, 1994. The Appropriations Conference Committee reduced without prejudice the Reactor Components program by \$14.7 million and the Nuclear Alteration program by \$10.0 million.

Economic Impact on Various Geographical Areas as Shown in the Naval Reactors Office Information Papers

<u>State</u>	<u>Activity</u>	<u>Amount (millions)</u>
	<u>Nuclear Alterations</u>	
Washington	Puget Sound Naval Shipyard	\$ 57
Virginia	Norfolk Naval Shipyard	55
	Newport News Shipyard	35
Hawaii	Pearl Harbor Shipyard	25
New Hampshire	Portsmouth Naval Shipyard	14
Connecticut	Electric Boat Division	<u>2</u>
	Subtotal - Nuclear Alterations	<u>\$188</u>
	<u>Reactor Plant Components</u>	
Pennsylvania	Pennsylvania Suppliers	\$ 78
Maryland	Maryland Suppliers	30
New York	New York Suppliers	22
Ohio	Ohio Suppliers	11
Connecticut	Connecticut Suppliers	9
California	California Suppliers	<u>6</u>
	Subtotal - Reactor Plant Components	<u>\$156</u>
	Total	\$344

ENCLOSURE 2

8

Report Distribution

Department of Defense

Under Secretary of Defense (Comptroller)
Deputy Under Secretary of Defense (Acquisition Reform)
Assistant to the Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Comptroller of the Navy
Auditor General, Department of the Navy
Headquarters, Naval Sea Systems Command
Office of Legislative Affairs
Naval Reactors Office

Department of the Air Force

Auditor General, Air Force Audit Agency

Defense Agencies

Inspector General, Central Imagery Office
Director, Defense Contract Audit Agency
Inspector General, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Director, National Security Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations

U.S. General Accounting Office, National Security and International Affairs Division,
Technical Information Center
Chairman and Ranking Minority Member of Each of the Following Congressional
Committees and Subcommittees:
Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations

Non-Defense Federal Organizations (Continued)

Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on
Government Operations

Audit Team Members

Donald E. Reed
Patricia A. Brannin
Rayburn H. Stricklin
William D. Van Hoose
Robert L. Shaffer
Stevenson A. Bolden
John R. Huddleston
Mary Ann Hourclé
Toni R. King

INTERNET DOCUMENT INFORMATION FORM

A . Report Title Navy's Budget Submission for Nuclear Reactor Components and Alterations to Nuclear Power Systems

B. DATE Report Downloaded From the Internet: 03/02/99

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

D. Currently Applicable Classification Level: Unclassified

E. Distribution Statement A: Approved for Public Release

F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ **Preparation Date** 03/02/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.